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The First European Merger Boom Has Begun

by Roy C. Smith and Ingo Walter

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Introduction

During the past five years, an extraordinary volume of mergers and acquisitions has taken place in Europe. Corporations there, inspired by a major change of direction towards free-market economics, have begun a period of industrial restructuring very similar to that which U.S. companies went through in the 1980s. The activity likely has many years yet to run, during which an active and competitive market for corporate control, along the lines of those already operating in the United States and the United Kingdom, can be expected to emerge in continental Europe. This market will do much to aid the strategic restructuring and efficiency enhancement of European industry. It will also help generate opportunistic behavior by a new breed of European corporate raiders and financial entrepreneurs in the 1990s.

In 1985, the EC Commission announced its single-market initiatives with a 1992 target date, commonly known as EC '92. To a significant extent these initiatives—many of which had been promised at the inception of the Common Market about 30 years earlier but never implemented—were the result of increasing confidence among European statesmen that deregulated private-sector economic activity could produce superior growth performance. The renewed confidence in the private sector followed bold, but successful, economic reforms undertaken in Britain and France—deregulation of financial services and privatization of an array of government enterprises, including several that had previously been heavily subsidized by the state.

Enthusiasm spread quickly into the private sector, where the focus was on cutting costs, increasing productivity, and improving profit performance. The 1992 initiatives further encouraged the European private sector to invest in the infrastructure necessary to service a unified market. Many companies began or accelerated programs of expansion through acquisition of other companies in Europe. Before long, the more cautious and skeptical among European companies had to take note of their more aggressive competitors. The result was a period of unprecedented and ongoing growth in merger and acquisition (M&A) transactions in Europe in the latter half of the 1980s, one that promises to continue through the 1990s.

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The European experience followed on the heels of dramatic industrial restructuring in the United States. This restructuring of the U.S. industrial sector—significant reshaping of corporate holdings and/or liabilities and capitalization—was driven primarily by five key factors:

1. relatively easy credit conditions,
2. a relaxed regulatory environment,
3. rising stock markets,
4. aggressive entrepreneurs, and
5. rapidly growing direct investment by European and Japanese corporations.

Industrial restructuring also reflected attempts to redress market-value misalignments and efforts by companies in newly globalized industries to improve their own competitive performance worldwide. In this sense, the late 1980s reflected extraordinary corporate realignments on the part of companies from all three of the world's major economic regions.

The intense U.S. M&A activity in the 1980s ignited a substantial global response that is continuing powerfully in Europe.

The most active area for corporate restructuring has been within the United States itself, where more than \$1 trillion of disclosed merger and acquisition activity involving more than 6,000 transactions occurred between 1985 and 1989. U.S. M&A activity actually began in about 1981, rising in volume and number of transactions to reach a peak in 1988 (the year in which the \$25 billion RJR Nabisco leveraged buy out (LBO) transaction was announced). The volume of completed intra-U.S. transactions declined by 30 percent in 1989, and the data for 1990 may well reflect a substantial further decline—partly because of the discontinuation of large junk-bond financed LBOs.

The intense M&A activity in the United States during the 1980s represented the fourth merger boom of the twentieth century. During the earlier booms (1898-1904, the 1920s, and the 1960s) there had been somewhat parallel activity in the United Kingdom, indicating a degree of international involvement and spillover. But there were little or no similar M&A transactions in continental Europe and Japan—neither of which had any history or experience with such market-driven transactions. The U.S. experience of the 1980s did, however, ignite a substantial global response, one that appears to be continuing powerfully in Europe even after the U.S. boom has subsided.

Global M&A Transactions

Table 1 demonstrates the extent to which M&A transactions have, in a very short time, become truly international. It shows completed merger and corporate-restructuring transactions in the United States; transactions involving U.S. and non-U.S. corporations; total transactions outside the United States; and the global volume of all such transactions for 1985-1989. In 1985, for example, domestic U.S. transactions accounted for 85 percent of global M&A activity; by 1989 this had declined to 53 percent. Early indications are that U.S. domestic transactions will account for less than half of total worldwide activity in 1990.

Cross-border transactions involving U.S. companies grew by a factor of four during the 1985-1989 period—when U.S. domestic M&A volume essentially remained static—with 82 percent (by volume) of the cross-border transactions representing sales of U.S. companies to non-U.S. buyers. This seems an extremely large share, one that appears to reflect a sort of lassitude or decline on the part of U.S. industry, otherwise known for its aggressive actions in M&A activity. However, most of the U.S. companies operating in Europe do so through subsidiaries or European companies acquired in earlier periods. For most U.S. firms, the need for first-time, strategic positioning acquisitions in Europe is not great. On the other hand, the reverse is true for European companies which have been substantially underrepresented in the United States. In any event, during the 1985-1989 period, European companies demonstrably found the rationale and the courage to acquire companies in the United States, where they found a plentiful supply of sellers willing to take their money.

Transactions entirely outside the United States grew the most rapidly—from \$16 billion (82 transactions) in 1985 to \$115 billion (1,459 transactions) in 1989, a sevenfold increase over the five-year period.

European Industrial Restructuring

Of the non-U.S. M&A transactions for the 1985-1989 period, \$196 billion, or 60 percent, were intra-European. An additional \$156 billion involved Europe/non-Europe transactions. European expansion was evidently occurring simultaneously on two fronts—within Europe and in other regions of global importance to European corporations, mainly the United States.

Intra-European transactions increased by a factor of nine during the period, Europe/non-Europe deals (in which 73 percent of the transac-

Table 1

TOTAL COMPLETED MERGER AND CORPORATE TRANSACTIONS, 1985-1989 (in billions of U.S. dollars)

	Domestic U.S.		Cross-Border U.S.				Outside U.S.		Global Totals	
	Number	Value	Buyer from U.S.		Seller From U.S.		Total Cross-Border		Number	Value
			Number	Value	Number	Value	Number	Value		
1985	778	\$181.5	28	\$4.8	72	\$9.7	100	\$14.5	82	\$16.3
1986	1,145	201.7	35	2.9	147	27.3	182	30.2	132	28.7
1987	1,273	199.9	46	7.7	172	35.5	218	43.2	310	70.7
1988	1,510	286.9	72	5.9	226	60.9	298	66.8	1,115	97.8
1989	1,489	200.3	124	17.5	324	44.6	448	62.1	1,459	115.3
TOTALS										
1985-89	6,195	\$1,070.4	305	\$38.8	941	\$178.0	1,246	\$216.8	3,098	\$328.8
									10,539	\$1,616.0

Notes for this and subsequent tables on M&A transactions:

- Completed transactions include: mergers, tender mergers, tender offers, purchases of stakes, divestitures, recapitalizations, exchange offers and LBOs. Only transactions with disclosed values are included.
- The volume data are classified according to the announcement date of transaction—not taking into consideration when a transaction is completed.
- Values are billion dollars of purchase price—excluding fees and expenses—at current exchange rates. The dollar value includes the amount paid for all common stock, common-stock equivalents, preferred stock, debt, options, assets, warrants, and stake purchases made within six months of the announcement date of the transaction. Liabilities assumed are included if they are disclosed in press releases or newspaper articles.

Source: Securities Data Corporation, Mergers and Corporate Transactions database.

tions by volume involved European acquisitions of non-European corporations) grew five times, as shown in Table 2.

European corporations entered the M&A field much more aggressively than most observers expected, with intra-European transaction volume growing far more rapidly than M&A volume anywhere else in the world during the late 1980s.

European corporations entered the M&A field much more aggressively than most observers expected.

These data suggest that an M&A boom has already taken hold in Europe. This boom appears to involve acquisitions within single European countries, between European countries, and between European and non-European companies. The boom, we believe, is the result of four factors. First of all, the need was growing for industrial restructuring in Europe because of value misalignments and globalization of industries similar to that experienced in the United States. Secondly, special motivations associated with the EC '92 single-market initiatives played a role. Availability of adequate financial resources, resulting in large part from the increased liberalization of capital markets in Europe, was another key element. Lastly, much of the M&A know-how accumulated in the United States during the 1980s has been transferred to Europe.

A Long-Running Boom?

Although it is difficult to predict how long this growth in European M&A volume will continue, it appears that there remains a great deal more to be done—barring an unexpected reversal of government policies affecting market-driven transactions or a substantial reversal of economic prospects in Europe. Most of the M&A activity in Europe during the 1985-1989 period (58 percent by volume) has involved United Kingdom corporations, which have a long history and familiarity with such transactions. French and Italian corporations (together accounting for 22 percent of intra-European transaction volume) have been the next most active M&A participants. German corporations, despite the size of the German economy, accounted for less than 5 percent of intra-European transaction volume during 1985-1989.

There is a broad array of differences between the structures of business enterprises within Europe. Many, including some very large ones, are not organized as publicly owned, limited-liability corporations. A recent study by Booz Allen Acquisition Services for the EC Commission shows, for example, that only 54 percent of the top 400 EC companies are publicly traded, or "quoted," versus 99 percent in the United

Table 2

**COMPLETED INTERNATIONAL MERGER AND CORPORATE
TRANSACTIONS INVOLVING EUROPE, 1985-1989**
(in billions of U.S. dollars)

	Intra-European Transactions		Europe/Non-Europe Transactions					
			Buyer from Europe		Seller from Europe		Total Cross- Border	
Year	Number	Value	Number	Value	Number	Value	Number	Value
1985	31	\$8.3	40	\$6.1	22	\$2.4	62	\$8.5
1986	59	11.9	85	17.8	34	3.5	119	21.3
1987	189	38.3	111	27.8	45	8.3	156	36.1
1988	835	63.4	179	36.0	104	8.4	283	44.4
1989	1,090	74.4	255	33.4	180	12.7	435	46.0
TOTALS 1985-89	2,204	\$196.4	670	\$121.0	385	\$35.4	1,055	\$156.4

Note: The notes for Table 1 on page 4 also apply to this table.

Source: Securities Data Corporation, Merger and Corporate Transactions database.

States. Out of the top 100 domestic companies in each country, 67 are publicly held in the United Kingdom, 56 in France, 45 in Germany and typically less than a third in the other EC countries.¹ The study also reports that only a relatively minor share of the domestic GNP in the three largest EC economies can actually be accessed through public takeovers. Nor do many of the continental European countries have a tradition of, or substantial experience with, market-driven domestic M&A activity. As a result, only a comparatively small percentage of enterprises in continental European countries have participated in such transactions.

Many of these enterprises have recently discovered new ways of managing their business and financial affairs through free capital markets. More active and efficient stock markets have encouraged a variety of closely held European companies to go public for the first time, creating a liquid market for their shares.

¹Booz Allen Acquisition Services, *Mergers and Acquisitions in the European Community* (Brussels: European Commission, 1990).

Once public, companies become interested in M&A transactions, either as buyers or sellers. As the M&A market becomes active, and as more potential participants become aware of their alternatives, more family-owned or closely held businesses begin to consider selling out through the M&A market instead of selling to a bank or a competitor at a less attractive price.

Increasing liquidity and awareness of the new opportunities should lead to a continuing increase in M&A transactions as continental European companies take advantage of the opportunities presented. In turn, this will increase the number of firms that are publicly quoted throughout Europe. Thus, there exists substantial potential for future M&A transactions, especially in continental Europe. This potential has already begun to show itself in the rapid rates of growth in such transactions originating on the continent.

Parallels to U.S. Industrial Restructuring

The economic restructuring in Europe expected during the 1990s is likely to be rather similar to the restructuring that occurred in the United States in the 1980s. Intense international competition will fuel the process, with similar "global" industries most intensively involved. Competition for the domestic market in the United States is open to corporations from all economic regions and is coupled to free inter-regional flows of productive factors, limited government subsidization and relatively transparent and benign antitrust policy. As a result, U.S. economic restructuring at the corporate level has occurred predominantly through M&A transactions.

There is considerable evidence that U.S. and European restructuring have followed parallel paths. The European industries most intensively involved in restructuring have been the same ones that experienced restructuring in the United States during the 1980s. Table A-1 (see appendix) ranks U.S. and European merger volume from 1985 to 1989 by the industry of the selling companies. Table A-2 does the same for the industry of the buying companies. In each table, approximately 70 industries (classified by two-digit SIC codes) were designated. U.S. and European industry involvement in M&A activity during the period were tested for statistical correlation—the simultaneous increase or decrease in values of two numerically valued random variables. The industry rankings show an especially high degree of correlation for M&A transactions for both buyers and sellers in the two regions.

The underlying motivations for the greatly increased European merger activity thus appear to be heavily strategic—*i.e.*, related to the search for scale and scope economies in the post-1992 European market on the part of both European and non-European firms, as well the search for market-share and "first mover" advantages. In this context,

M&A activity can deliver productive assets much more quickly and opportunistically than starting from scratch—greenfield investments. Mergers and acquisitions reduce effective entry costs, although implementation problems can offset some of these benefits, especially when they involve cross-border managerial problems.

The underlying motivations for the greatly increased European merger activity appear to be related to the search for scale and scope economies in the post-1992 European market.

M&A activity in Europe also appears to involve opportunistic factors. As the regulatory environment is relaxed, funds are more readily available to finance entrepreneurial moves by newcomers. During the past several years many such new entrepreneurs have appeared in the United Kingdom, Italy, France, Switzerland, Belgium, Sweden and various other countries. As in the U.S. M&A boom of the 1980s, these players act as potent catalysts in the process of restructuring through the market for corporate control.

Patterns of European M&A Activity

The patterns of intra-European M&A activity for the 1985-1989 period can be observed by sorting transactions by the nationality of buyers and sellers, as presented in Table 3. The average annual rate of growth of all intra-European M&A volume was 120 percent, an exceptionally high growth rate. U.K. activity in the European merger marketplace was by far the greatest—64 percent of all reported intra-European transactions involved British seller companies. British seller volume grew at an average annual rate of 66 percent, about the same as the overall intra-European M&A growth rate. Transactions involving British sellers to British buyers grew at a somewhat slower rate of 60 percent during the period.

French and Italian companies, however, were acquiring other European companies (including British companies) at a much more rapid pace. Especially active on the buy-side in the intra-European market, French buyer-transactions grew at a rate of 465 percent per annum. Purchases by Italian companies grew at 111 percent annually during the same period. French buyers acquiring French companies totaled \$13.7 billion (out of a total of \$26.7 billion of French intra-European acquisitions) during the five-year period—an annual growth rate of 373 percent. Italian companies acquired other Italian companies worth \$13.9 billion during the period.

Table 3

**VOLUME OF COMPLETED INTRA-EUROPEAN M&A
TRANSACTIONS BY COUNTRY, 1985-1989**
(in millions of U.S. dollars)

Country of Buyer Company	Country of Seller Company					
	United Kingdom	France	Italy	Germany	Other European	Totals Buyer
United Kingdom 1985	\$6,747	0	0	0	\$12	\$6,760
1986	7,714	0	0	0	60	7,774
1987	21,671	4	100	0	237	22,012
1988	27,392	1,085	150	140	742	29,508
1989	44,036	1,164	257	294	2,048	47,799
TOTAL	107,560	2,253	507	433	3,099	113,852
CGR	60%					63%
France 1985	0	11	0	0	0	11
1986	0	176	521	0	0	697
1987	317	1,324	0	0	0	1,641
1988	2,898	6,861	99	310	3,254	13,421
1989	4,897	5,344	392	0	248	10,881
TOTAL	8,111	13,715	1,012	310	3,502	26,650
CGR		373%				465%
Italy 1985	17	0	165	0	0	182
1986	0	0	1,199	71	0	1,270
1987	0	20	7,876	0	1,051	8,948
1988	0	710	1,293	0	888	2,890
1989	100	91	3,344	63	0	3,598
TOTAL	117	821	13,878	134	1,939	16,888
CGR			112%			111%
Germany 1985	0	0	0	899	0	899
1986	425	0	887	0	0	1,312
1987	160	331	0	251	0	741
1988	59	154	627	1,232	45	2,117
1989	170	1,176	38	1,803	1,457	4,644
TOTAL	814	1,661	1,552	4,184	1,502	9,713
CGR				19%		51%

Table 3 (continued)

Country of Buyer Company	Country of Seller Company					
	United Kingdom	France	Italy	Germany	Other European	Totals Buyer
Other 1985	\$0	\$0	\$0	\$0	\$475	\$475
Euro- 1986	564	0	0	0	294	858
pean 1987	382	153	0	239	4,219	4,993
1988	6,674	0	1,760	0	7,062	15,495
1989	1,729	20	306	150	5,306	7,511
TOTAL	9,349	174	2,065	389	17,356	29,333
CGR					83%	99%
Totals 1985	6,764	11	165	899	488	8,326
Seller 1986	8,703	176	2,608	71	354	11,911
1987	22,530	1,833	7,976	490	5,506	38,335
1988	37,022	8,810	3,928	1,682	11,990	63,432
1989	50,931	7,795	4,337	2,309	9,060	74,433
TOTAL	125,950	18,624	19,014	5,451	27,398	196,437
CGR	66%	420%	126%	27%	108%	73%

Notes: CGR = Corporate Annual Growth Rate.
 Numbers may not add to totals due to rounding.
 The notes for Table 1 on page 4 also apply to this table.

Source: Securities Data Corporation, Mergers and Corporate Transactions database.

German companies (whose rate of growth in intra-European buyer transactions was 51 percent annually during 1985-1989, for a total of \$9.7 billion) substantially lagged behind British, French, and Italian acquirers. German sell-side activity grew even more slowly, showing a growth rate of only 27 percent per annum. German firms are perhaps the least accustomed to domestic M&A activity among the major European nations.

Overall, sellers from these four countries (Britain, France, Italy, and Germany) made up about 86 percent of aggregate intra-European transaction volume during the period. German sellers accounted for less than 3 percent of all seller activity.

In many continental European countries there remain significant structural and/or regulatory barriers to takeover activities. Control

over voting rights, privileges granted to management to take actions without shareholder approval, and restrictions on the availability of material information are some of the most conspicuous barriers. These impediments are sufficient in some countries (especially Switzerland, Germany, the Netherlands and France) to preclude most hostile takeover attempts. In general, these barriers are being gradually dismantled. In some cases, contested transactions have succeeded despite them.

European companies frequently enter into strategic alliances with other companies in an effort to secure many of the benefits of an acquisition without incurring all of the costs, financial and otherwise.

The barriers do not, of course, prevent a defender's board from finally coming to agreement with a pursuer. Nor do these restrictions prevent a pursuer from going public with proposals for a friendly takeover at a fair price to shareholders, who in turn are free to exert pressure on the defenders. Even in Switzerland, where voting rights to foreign-owned shareholders can often be denied by unilateral management action, proposals offering a high price for the stock of a company directly to shareholders (subject to the condition that management register all the shares) would be taken very seriously.

Strategic Alliances

European companies frequently enter into strategic alliances with other companies in an effort to secure many of the benefits of an acquisition without incurring all of the costs, financial and otherwise. Such alliances have been seen as characteristic of European companies, reflecting cultural patterns with a strong traditional base. Further, controlling a substantial minority interest may be sufficient to control the company itself. In such cases, the level of investment needed to achieve effective governance of the business and assets of a company may be comparatively small.

In the United States, on the other hand—and in the United Kingdom to a somewhat lesser extent—minority interests can be difficult to manage. If a company has a minority interest outstanding, such shareholders may institute litigation to ensure that their rights are not infringed upon, or that the value of their investments are not diminished by actions taken by controlling stockholders.

Minority shareholders have for many years received the protection of the courts from inappropriate loss of rights or values. For example, multiple-plaintiff (class action) suits are permitted in the United States,

which means that the slightest perceived irregularity will almost certainly provoke a lawsuit against controlling shareholders. For this reason, few controlling shareholders in the United States wish to leave minority interests outstanding for any length of time.

Many U.S. companies have experienced joint shareholding (stakeholding) arrangements with partners that were unwound after a few years. Either the two parties did not share the same expectations or shoulder the burdens of the venture equally, or business or personnel changes took place that altered the importance of the venture in one or both parties' minds. Very few partnership arrangements of this sort last very long, but for many individuals contemplating new challenges it is tempting to think that one can face those challenges best with a like-minded partner.

The incidence of partial ownership transactions is relatively small in the United States, accounting for 10 percent or less of all transactions in each year since 1985 and averaging less than 6 percent for the entire 1985-1989 period. In Europe, the use of partial ownership positions differs significantly between the United Kingdom and continental European transactions. The incidence of stakeholdings in the United Kingdom has been relatively small, but larger than in the United States—averaging between 8 and 12 percent. A much higher incidence of partial ownership is evident in continental Europe, where it averaged between 24 and 26 percent of all European transactions for the 1985-1989 period. It may be, however, that the rate of partial ownership transactions in the rest of Europe has begun to decline, as difficult managerial lessons are learned from experience in stakeholdings.

Hostile Takeovers on the Rise

Another European notion about M&A activity is that hostile transactions—often viewed as an unwelcome creation of overly aggressive Anglo-Saxon bankers and entrepreneurs—have little role to play in continental Europe. Certainly, hostile deals flourished in the United States and the United Kingdom, where they accounted for an average of 18 percent and 29 percent, respectively, of total attempted transactions by volume during the 1985-1989 period. This was a time when hostile bids were relatively easy to arrange and finance in these two countries, particularly for larger-sized transactions.

American companies, although rarely employing hostile bids when acquiring firms abroad, were themselves frequently targets of hostile bids from non-U.S. companies, especially British firms. The U.K. experience was roughly the same in cross-border transactions, whether U.K. companies were acquirers or targets. Continental European companies, on the other hand, experienced a much lower incidence of hos-

tile activity, accounting for an average of approximately 9 percent of all intra-European transactions.

However, the data do indicate an increase in hostile activity after the de Benedetti raid on Société Generale in 1988. There are at least two reasons why continental European companies are becoming more willing to resort to hostile bidding techniques, despite their traditional reluctance to do so.

*In Europe, LBOs do not depend on junk-bonds,
but on loans from banks and mezzanine investors.*

First, many larger European companies have either participated in (or observed closely) takeover activity in the United States or the United Kingdom and have become sufficiently familiar with takeover practices to consider importing them back to their home countries. Many of these companies are headed by the new financial entrepreneurs of Europe who believe in aggressive restructuring activities.

Second, capital market activity in Europe has increased substantially in volume and sophistication. Funds are available to entrepreneurs seeking to launch takeovers, and institutional investors on the receiving end of offers have come to understand the advantages of takeovers better. The greatest progress in breaking through takeover barriers has been achieved in France, Italy and Spain where (as noted earlier) aggregate growth in M&A activity has been the highest in all of Europe.

The Increase in LBOs

Similar comparisons may be drawn for LBO penetration in the United States, the United Kingdom and continental Europe. The level of activity of attempted LBOs in the United States declined sharply at the end of the 1985-1989 period (after achieving a peak of 31 percent of all attempted transactions in 1988). The United Kingdom and the rest of Europe have experienced substantial increases in LBOs. The \$20 billion Hoylake (Sir James Goldsmith and others) bid for BAT industries in 1989 was an especially prominent example. It is significant that LBOs are occurring in continental Europe at all (where they accounted for about 6 percent of intra-European M&A activity in 1988 and 1989), and that such transactions have been growing in recent years.

U.S. LBOs tended to be highly leveraged transactions that were very much dependent on junk-bond financing. Their decline is a direct consequence of the recent collapse of the junk-bond market and its principal firm, Drexel Burnham Lambert. In Europe, however, LBOs are generally not as highly leveraged. The transactions do not depend at all

on junk bonds, but instead on loans from banks and mezzanine investors, whose ranks have been increasing steadily. Even such a complex free-market device as the LBO can be put to use in continental Europe once the financing is available and investors understand its uses and drawbacks.

Using Financial Advisers

A comparison of the use of financial advisers in large M&A transactions by companies from the United States, the United Kingdom and the rest of Europe highlights the difference between U.S. and U.K. companies and those on the continent. U.S. and U.K. companies have learned that it is nearly impossible to be assured of the highest price (if one is a seller and an auction needs to be arranged) or the most effective tactics (if one is a buyer) without the services of financial advisers. Continental Europeans use fewer advisers, but appear to be catching up quickly as bankers make their services more widely understood and available throughout Europe.

The banking advisers chosen for intra-European M&A transactions are not necessarily local institutions. In 1989, the top twenty advisers ranked by volume of deals (excluding the very large BAT Industries restructuring transactions) included eight U.S. firms, ten U.K. firms, and two French banks. The advisory business is dominated by American and British firms that know most about the modern forms of M&A activity and have marketed their services widely throughout Europe (see Table 4).

Emerging EC Takeover Rules

The European market for corporate control remains extremely fragmented, ranging from a relatively efficient, transparent and market-linked structure in the United Kingdom to those of Germany and Switzerland, characterized by serious obstacles to takeover activity. Such obstacles are derived from the traditional conduct of business in these countries (such as company relationships with "hausbanks"), the relatively small number of publicly traded companies, and artificial obstacles intended to impede unwanted bids for corporate control. In December 1988, the EC Commission issued a draft directive to harmonize takeover rules throughout the European Community, containing three major provisions.

First, under the draft directive, companies that offer to buy more than 30 percent of the shares in a target company must launch a bid to buy all of the shares. A basic principle of the proposed EC takeover

Table 4

**RANKING OF INTRA-EUROPEAN
M&A ADVISORY SERVICES, 1989**

	Amount (\$ billions)	Number of Deals
Goldman Sachs	14.85	17
Kleinwort Benson	14.26	14
Schroder Wagg	14.17	26
CS First Boston	11.70	13
S.G. Warburg	10.09	28
J.P. Morgan	9.81	3
Wasserstein Perella	8.30	2
Bankers Trust	8.06	8
Morgan Grenfell	7.50	14
Shearson Lehman	6.34	10
Lazard Brothers	4.94	8
Hambro Magan	4.83	6
Baring Brothers	4.77	18
Samuel Montagu	3.65	26
Paribas	1.68	33
Merrill Lynch	1.35	6
CCF	1.19	20
BZW	1.12	11
Robert Fleming	0.68	4
Citicorp	0.62	13

Note: Rankings are for European target deals only; agreed, unconditional or completed in 1989; minority stakes and joint ventures are not included. No credit is given to advisers of unsuccessful offers. The total for Bankers Trust is for the first nine months of 1989 only.

Source: *Equity International*, February 1990.

rules would be that all shareholders should be treated equally, and shareholders would have from four to ten weeks to submit their acceptance under any takeover bid.

Second, companies that launch takeover attempts would have to state their intentions about the target firm's future activities, including the work force, as well as financial structure and debt levels. The latter provision is aimed specifically at LBO deals.

Third, certain anti-takeover defenses would be prohibited, including "exceptional operations" and share sales or other blocking actions without the approval of existing shareholders.

A recent study proposed several benchmarks against which future EC rules on takeover activity should be measured. These benchmarks include:

- majority shareholder control, specifically with respect to takeover defenses;
- periodic review and majority shareholder vote on control restrictions such as pre-emptive rights;
- ban on self-control through company-owned and affiliate-owned shares;
- shareholder equality of treatment in dividend policy, preferential share price offers, information disclosure, and related aspects of takeover activity that may be unfair, enforced by stock exchange authorities;
- full disclosure of management accounts, shareholder agreements,
- identity of large shareholdings, and free access to shareholder lists; and
- common policies toward takeovers by non-EC companies which take into account takeover rules in their respective home countries.

Corporate restructuring in the European Community has always reflected the fundamental differences that have existed in the member countries' financial systems. In much of continental Europe, corporate finance has traditionally been heavily bank-oriented. Universal banks are heavily engaged in corporate lending as well as in equity investments for their own and fiduciary accounts. Such a pattern provides banks with both non-public information and (indirectly and through external board memberships) potential influence over management decisions involving corporate restructuring activities. Firms that do not meet bank performance expectations find themselves under pressure to restructure—activity that may be initiated, orchestrated and implemented by the banks. Indeed, continental European banks have historically had to carry out industrial restructurings in the absence of well-functioning capital markets, following periods of war or economic collapse, and so are accustomed to this role.

In the United States and the United Kingdom, on the other hand, banks have not had a comparable role in corporate finance. Capital markets have played a much larger part in industrial development for well over a century in these two nations. Corporate debt financing has relied much more heavily on the securities markets, with debt holders exerting limited influence on managerial decisions. In general, public equity holders passively accept managements' pursuit of interests other than those which would maximize the value of their shareholdings.

At the same time, accounting and disclosure standards are such that the financial affairs of public companies are relatively transparent. Banks under the Glass-Steagall provisions in the United States and pre-Big Bang restrictions in the United Kingdom have had limited influence on management. This influence was not even remotely comparable to that of their continental European counterparts. Consequently, in the United States and United Kingdom changes in corporate control have been exerted by the capital market, often through hostile takeovers by unaffiliated parties. Even if a hostile takeover is unsuccessful, existing management may be forced into corporate restructuring activity not dissimilar to what an unaffiliated acquirer would undertake.

The merits and demerits of the two systems have been widely debated. Bank-oriented systems are often said to be less crisis-prone, to favor long-term as opposed to short-term views in corporate decision making, and to provide superior continuous monitoring of corporate performance leading to preemptive structural adjustment. Market-oriented systems are often credited with greater efficiency, financial innovation and dynamism, superior resistance to inherent conflicts of interests among the various stakeholders involved, and (through better transparency) are less susceptible to major uncorrected industrial blunders.

In the 1990s, there is likely to be some degree of convergence between the two approaches. Financial liberalization and wider use of the securities markets by continental European corporations, together with increasingly performance-oriented portfolio management on the part of mutual funds, insurance companies and other institutional investors is leading to a gradual shift away from bank financing. Hostile takeover attempts through acquisition of shareholdings by unaffiliated (often foreign) investors is also increasing. At the same time, easing of banks' activity limits in the United Kingdom and the United States is beginning to allow them to play a larger role in industrial restructuring transactions, and to exploit some of the information and relationship advantages they have as lenders.

Summary and Conclusions

We can draw a number of conclusions about the future of European economic restructuring through M&A transactions:

1. A merger boom has indeed begun in Europe, and is being regarded as beneficial to industrial corporations (both those owned by the private sector and those still owned by governments). This restructuring is seen as enhancing competitive performance, and a way for investors to improve liquidity and realize greater gains from long-

standing holdings. Some disruption of established relationships and entitlements can be expected from increased M&A activity, but there is little evidence to date of either public or institutional resistance to the level of activity attained. Nor does there appear to be evidence of the type of extreme behavior on the part of the principals engaged in restructuring that might attract increased regulation in the future. At the same time, there is a growing recognition that clear rules of procedure, and suitable powers of enforcement must be put into place in order to prevent possible abuses.

2. The user-benefits of a global or European market for corporate control are considerable. In many parts of continental Europe, businesses are proprietorships, partnerships, or closely held corporations. Such owners have lacked liquidity in their holdings and thus have been restricted in distributing wealth to successive generations of their families, or in being able to sell out at the end of their active years. In the past, such owners have had to accept low prices for their businesses in a sale to a competitor, to a bank, or to the market in a limited "going-public" transaction.

More recently, as a result of privatization issues, increasing deregulation, growing trading volumes, and enhanced liquidity (in part due to investments from the United States and Japan), European equity markets have become much more active, efficient and transparent. With this development has come the possibility of selling businesses at prices attuned to the public equity markets, plus a substantial control premium. Thus, the market for corporate control has attracted numerous owners of businesses seeking buyers. There is reason to believe that once this pattern of transactions becomes established in Europe, as it has in the United States and the United Kingdom, it will become a permanently operating market.

3. Buyers have also become important users of the market, especially those larger European corporations looking for strategic additions to their businesses in anticipation of the liberalization in 1992. Many continental buyers have gained substantial experience in acquiring companies in the United States and in the United Kingdom and have become comfortable operating in other countries. Moreover, many have found a growing number of experienced advisers to assist them in effecting complicated transactions and in gaining access to needed capital. Successful buyers attract other companies from their industries as emulators.

4. Both buyers and sellers are benefitting from better understanding of company valuations, financing techniques, and the opportunity to dispose of businesses that no longer fit strategic objectives. Much greater financial flexibility has been developed. Sellers of businesses, in particular, have benefitted from tactics designed to utilize auction

processes in order to increase selling prices. Buyers have benefitted from increased opportunities to make offers directly to shareholders, even if such offers are opposed by the board of directors of the companies concerned.

5. The extraordinary volume of transactions after 1985, relative to prior levels of activity, indicate that the market for corporate control has begun to generate its own attention. Financial infrastructure is beginning to evolve to support future growth. Players of all sorts (advisers, bankers, strategic consultants, lawyers, etc.) will attempt to stimulate transactions. Moreover, a new breed of financial entrepreneur is developing who can be expected to create and exploit profit opportunities.

Market-driven economic restructuring is linked to profit motives that have been stimulated by the EC '92 initiatives.

These factors, taken together, suggest the development of an exceptional amount of momentum in the merger market in Europe, one that will assist in its further expansion. This movement can be expected to continue until such time as a substantial proportion of large businesses, especially those intending to operate on a regional or global basis, have been restructured, and corporate control values have found equilibrium levels. Perhaps the process, coming as it does to Europe for the first time, could last a decade or more.

In essence, market-driven economic restructuring is linked to profit motives that have been stimulated by the EC '92 initiatives. A variety of transactions that involve corporate equity may be aimed at more efficient deployment of economic resources and capturing available economies of scale and scope under intensified competitive pressure. They may also reflect strategic corporate repositioning into market structures altered by the new rules of the game, and opportunistic efforts by new entrepreneurs. Organizational changes may involve financial restructuring within the firm itself, buying part or all of another firm, or selling the firm in order to reinvest assets elsewhere. Much of this activity is captured in the M&A transactions flow since 1985, which is likely to intensify further in the 1990s. Liquefying the market for corporate control is likely to be of major importance and lasting benefit for the efficiency and growth of the European regional economy.

Table A-1

**CORRELATION OF INDUSTRY GROUPS OF U.S.
AND EUROPEAN M&A SELLER COMPANIES
BY SIC CODE, 1985-1989 a,b
(in millions of U.S. dollars)^c**

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
28	Chemicals & Allied Products	1	331	\$122,248.2	4	103	\$11,854.7
13	Oil & Gas Extraction	2	289	75,882.0	2	50	23,559.3
48	Communications	3	393	73,397.3	32	26	1,342.4
20	Food & Kindred Products	4	214	71,755.6	1	126	32,801.9
36	Electronic & Other Elect. Equip.	5	380	63,269.1	8	111	9,522.2
60	Depository Institutions	6	550	56,806.0	3	59	15,422.2
35	Industrial Machinery & Equip.	7	398	50,080.7	13	118	6,322.9
53	General Merchandise Stores	8	82	40,055.0	18	14	3,968.9
27	Printing & Publishing	9	229	39,499.2	7	101	9,834.4
78	Motion Pictures	10	99	35,503.1	29	26	1,446.3
21	Tobacco Products	11	10	32,899.7	56	2	305.3
37	Transportation Equipment	12	161	32,162.8	12	81	6,676.7
38	Instruments & Related Prod.	13	276	30,842.5	43	43	895.8
54	Food Stores	14	90	29,453.3	9	24	8,782.4
73	Business Services	15	338	27,734.0	14	174	5,691.0
61	Nondepository Institutions	16	119	27,357.6	31	21	1,426.1
70	Hotels & Other Lodging Places	17	124	24,976.1	17	55	4,235.9
49	Electric, Gas & Sanitary Serv.	18	137	24,918.5	41	21	976.3
30	Rubber & Misc. Plastic Prod.	19	118	21,881.6	35	62	1,238.0
32	Stone, Clay & Glass Products	20	97	21,749.1	22	47	2,232.2
58	Eating & Drinking Places	21	106	21,741.2	42	34	913.2
45	Transportation by Air	22	96	21,065.1	45	9	775.7
33	Primary Metal Industries	23	137	20,190.5	36	60	1,138.6
63	Insurance Carriers	24	193	20,061.9	6	41	9,949.1
40	Railroad Transportation	25	40	19,561.0	0	0	0.0
26	Paper & Allied Products	26	71	18,586.1	10	44	7,875.7
80	Health Services	27	151	16,043.1	49	20	475.0
34	Fabricated Metal Products	28	151	15,938.5	21	83	3,159.2

Table A-1 (continued)

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
65	Real Estate	29	111	15,361.5	5	82	11,545.9
23	Apparel & Other Textile Prod.	30	64	13,053.5	54	19	319.4
62	Security & Commodity Brokers	31	107	12,645.1	11	72	7,231.2
10	Metal Mining	32	44	11,845.0	15	9	4,480.5
59	Miscellaneous Retail	33	112	11,590.9	33	32	1,272.0
22	Textile Mill Products	34	73	10,606.3	24	50	1,739.5
87	Engineering & Mgmt. Services	35	160	10,505.3	38	101	1,116.5
51	Wholesale Trade—Nondurable	36	94	9,767.8	26	63	1,690.8
75	Auto Repair, Serv. & Parking	37	23	8,687.0	27	19	3,643.4
64	Insurance Agnts., Brokr. & Serv.	38	18	\$6,572.7	25	17	\$1,749.0
42	Trucking & Warehousing	39	45	6,365.6	51	12	372.3
67	Holding & Other Inv't. Offices	40	113	6,120.9	16	44	4,391.5
46	Pipelines, Exc. Natural Gas	41	19	5,901.6	67	2	7.2
50	Wholesale Trade—Durable Gds.	42	133	5,466.6	20	125	3,382.4
56	Apparel & Accessory Stores	43	52	4,843.7	47	11	609.8
25	Furniture & Fixtures	44	45	4,467.6	53	21	319.7
29	Petroleum & Coal Products	45	28	4,271.2	40	10	999.4
39	Misc. Manufacturing Indust.	46	66	4,215.7	52	32	337.5
24	Lumber & Wood Products	47	38	3,825.8	30	22	1,429.6
57	Furniture & Homefurnish. Stores	48	45	3,588.9	19	23	3,750.3
44	Water Transportation	49	34	3,541.4	23	23	2,062.4
52	Building & Garden Materials	50	28	3,448.3	48	9	537.2
79	Amusement & Recreation Serv.	51	32	3,425.4	34	23	1,245.3
14	Nonmetallic Minerals—Exc. Fls.	52	16	2,642.1	57	14	227.2
12	Coal Mining	53	31	2,222.4	58	4	155.9
8	Forestry	54	15	2,139.2	0	0	0.0
1	Agricultural Production—Crops	55	16	2,092.2	55	6	310.4
2	Agricultural Prod.—Livestock	56	5	1,919.5	69	1	0.1
15	General Building Contractors	57	44	1,837.0	46	30	740.4
55	Auto Dealers & Serv. Stations	58	18	1,780.1	39	29	1,050.3
47	Transportation Services	59	17	1,555.6	44	17	808.6
31	Leather & Leather Products	60	21	1,434.5	37	17	1,135.1
16	Heavy Construction—Exc. Bldg.	61	18	1,200.0	60	8	98.6

Table A-1 (continued)

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
0	Unknown	62	23	881.2	59	14	144.1
72	Personal Services	63	13	675.4	50	27	402.0
41	Local & Passenger Transit	64	3	509.0	64	3	17.4
89	Services, Nec.	65	4	406.2	63	1	19.8
7	Agricultural Services	66	1	386.6	0	0	0.0
83	Social Services	67	8	338.5	65	2	12.8
82	Educational Services	68	5	298.4	61	5	81.2
17	Special Trade Contractors	69	8	171.7	28	30	1,462.0
76	Misc. Repair Services	70	5	150.6	68	1	1.3
9	Fishing, Hunting & Trapping	71	1	27.0	62	2	31.6
91	Exec., Legislative & General	0	0	0.0	66	1	10.2

- Notes:
- Completed transactions include: mergers, tender mergers, tender offers, purchases of stakes, divestitures, recapitalizations, exchange offers and LBOs.
 - The volume data are classified according to the announcement date of a transaction—not taking into consideration when a transaction is completed.
 - Million dollars of purchase price—excluding fees and expenses—at current exchange rates.
 - Ranking is based on total dollar value of target industry.

Source: Securities Data Corporation, Mergers and Corporate Transactions database.

Table A-2

**CORRELATION OF INDUSTRY GROUPS OF U.S.
AND EUROPEAN M&A BUYER COMPANIES
BY SIC CODE, 1985-1989 ^{a,b}
(in millions of U.S. dollars)^c**

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
67	Holding & Other Inv't. Offices	1	1,823	\$278,048.8	1	334	\$40,919.8
28	Chemicals & Allied Products	2	250	83,696.6	3	147	33,197.8
13	Oil & Gas Extraction	3	222	67,440.9	4	61	20,650.4
48	Communications	4	315	57,931.3	23	25	3,748.1
60	Depository Institutions	5	484	52,603.1	5	68	16,779.9
62	Security & Commodity Brokers	6	220	47,959.3	9	117	9,142.9
27	Printing & Publishing	7	154	38,601.4	7	110	13,971.9
35	Industrial Machinery & Equip.	8	242	33,822.4	11	132	7,169.2
20	Food & Kindred Products	9	163	33,251.6	2	149	34,585.1
21	Tobacco Products	10	12	33,217.4	55	2	171.7
36	Electronic & Other Elect. Equip.	11	191	33,123.9	6	120	14,269.7
38	Instruments & Related Prod.	12	174	27,761.3	29	39	2,391.5
37	Transportation Equipment	13	104	24,028.8	15	66	5,909.3
63	Insurance Carriers	14	188	20,611.5	10	59	8,944.2
53	General Merchandise Stores	15	49	20,478.5	26	12	2,650.2
40	Railroad Transportation	16	30	17,174.9	62	1	78.4
49	Electric, Gas & Sanitary Serv.	17	117	16,423.2	18	29	4,377.2
78	Motion Pictures	18	75	15,750.9	33	19	2,220.0
45	Transportation by Air	19	53	15,221.3	39	10	1,410.0
73	Business Services	20	180	14,778.2	12	125	6,655.8
61	Nondepository Institutions	21	94	14,516.3	48	20	815.8
26	Paper & Allied Products	22	67	13,191.8	28	42	2,434.7
32	Stone, Clay & Glass Products	23	66	11,485.9	16	74	5,777.3
33	Primary Metal Industries	24	77	11,338.6	17	71	5,298.3
54	Food Stores	25	38	11,295.4	25	10	2,798.8
10	Metal Mining	26	38	10,214.5	20	12	4,269.6
65	Real Estate	27	83	9,136.1	32	57	2,279.7
70	Hotels & Other Lodging Places	28	51	9,131.3	24	49	2,880.0

Table A-2 (continued)

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
30	Rubber & Misc. Plastic Prod.	29	64	8,093.7	21	43	4,059.2
34	Fabricated Metal Products	30	76	7,009.0	30	69	2,383.5
80	Health Services	31	80	6,343.7	51	11	289.4
58	Eating & Drinking Places	32	45	6,075.8	13	37	6,046.3
23	Apparel & Other Textile Prod.	33	31	5,594.6	31	30	2,356.0
51	Wholesale Trade—Nondurable	34	48	4,527.1	14	69	5,984.3
59	Miscellaneous Retail	35	47	4,353.7	37	20	1,501.4
50	Wholesale Trade—Durable Goods	36	72	3,646.8	34	100	2,219.5
15	General Building Contractors	37	30	3,507.4	22	41	3,779.3
39	Misc. Manufacturing Indust.	38	38	\$3,043.9	50	19	\$620.8
0	Unknown	39	34	2,907.4	47	16	880.0
24	Lumber & Wood Products	40	21	2,878.7	36	18	1,601.7
87	Engineering & Mgmt. Services	41	59	2,692.1	19	106	4,311.1
12	Coal Mining	42	19	2,434.5	43	9	956.0
52	Building & Garden Materials	43	12	2,063.7	64	3	42.8
22	Textile Mill Products	44	31	1,909.4	40	39	1,198.3
44	Water Transportation	45	20	1,751.1	27	35	2,544.4
75	Auto Repair, Serv. & Parking	46	8	1,735.4	56	10	153.2
46	Pipelines, Exc. Natural Gas	47	13	1,704.4	0	0	0.0
29	Petroleum & Coal Products	48	9	1,613.4	41	11	1,158.5
64	Insurance Agents, Brok. & Serv.	49	10	1,177.9	35	14	1,682.4
47	Transportation Services	50	8	1,163.2	58	5	126.0
42	Trucking & Warehousing	51	16	1,140.7	53	7	272.8
25	Furniture & Fixtures	52	19	1,122.3	63	10	76.3
79	Amusement & Recreation Serv.	53	16	1,070.5	52	13	285.4
56	Apparel & Accessory Stores	54	18	905.1	46	6	894.1
41	Local & Passenger Transit	55	4	815.0	0	0	0.0
55	Auto Dealers & Serv. Stations	56	9	774.8	57	20	152.2
99	Nonclassifiable Establishments	57	5	734.1	59	2	101.4
14	Nonmetallic Minerals—Exc. Fls.	58	6	653.0	60	6	98.5
8	Forestry	59	3	636.0	38	13	1,477.7
82	Educational Services	60	7	585.1	54	3	249.8
16	Heavy Construction—Exc. Bldg.	61	9	427.9	45	19	906.1

Table A-2 (continued)

SIC	Description	U.S. Transactions			European Transactions		
		Rank ^d	#	Value ^c	Rank ^d	#	Value ^c
1	Agricultural Production—Crops	62	7	381.9	61	2	98.0
72	Personal Services	63	9	369.2	49	51	679.4
83	Social Services	64	8	343.4	66	1	1.3
31	Leather & Leather Products	65	5	305.4	8	17	10,565.6
57	Furniture & Homefurnish. Strs.	66	10	183.7	42	12	969.8
2	Agricultural Prod.—Livestock	67	1	88.0	0	0	0.0
96	Admin. Of Econ. Programs	68	2	70.0	0	0	0.0
86	Membership Organizations	69	3	51.9	0	0	0.0
17	Special Trade Contractors	70	4	30.9	44	25	918.8
76	Misc. Repair Services	71	2	16.4	67	1	1.3
89	Services, Nec.	72	1	10.1	65	1	4.1
81	Legal Services	73	1	1.0	0	0	0.0

- Notes:
- a. Completed transactions include: mergers, tender mergers, tender offers, purchases of stakes, divestitures, recapitalizations, exchange offers and LBOs.
 - b. The volume data are classified according to the announcement date of a transaction—not taking into consideration when a transaction is completed.
 - c. Million dollars of purchase price—excluding fees and expenses—at current exchange rates.
 - d. Ranking is based on total dollar value of acquiring industry.

Source: Securities Data Corporation, Mergers and Corporate Transactions database.

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